REPORT OF EXAMINATION
OF THE

GEOVERA SPECIALTY INSURANCE
COMPANY

AS OF
DECEMBER 31, 2006

Participating State and
Zone:

California

Filed June 23, 2008

TABLE OF CONTENTS

San Francisco, California
May 20, 2008

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Kent Michie
Secretary, Zone IV-Western
Commissioner of Insurance
Department of Insurance, State of Utah
Salt Lake City, Utah

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary, and Commissioner:

Pursuant to your instructions, an examination was made of the

GEOVERA SPECIALTY INSURANCE COMPANY

(hereinafter referred to as the Company) at its home office located at 4820 Business Center Drive, Suite 200, Fairfield, California 94534.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2002. This examination covers the period from January 1, 2003 through December 31, 2006. The examination was conducted pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions, and an evaluation of assets and a determination of liabilities as of December 31, 2006, as deemed necessary under the circumstances.

The examination was conducted concurrently with the examination of the Company's affiliates, Pacific Select Property Insurance Company and GeoVera Insurance Company.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience and sales and advertising.

SUBSEQUENT EVENTS

Effective January 1, 2007, the Company and its affiliate, GeoVera Specialty Insurance Company were redomesticated to California from Maryland.

During the first quarter of 2008, the Company (GVSIC) and its affiliates, Pacific Select Property Insurance Company (PSPIC) and GeoVera Insurance Company (GVIC) paid ordinary dividends totaling $15,811,871 to its parent company, GeoVera Holdings, Inc. (GVH). In April 2008, the Company, PSPIC and GVIC applied to the California Department of Insurance (CDI) for an approval of an extraordinary dividend to its parent, GVH, totaling $44,750,000 of which $1 million would be paid by the Company. The application is currently pending before the CDI. If approved, the Company and its affiliates' projected surplus after the extraordinary dividends would be as follows:

Company	Surplus as Reported in 2007 Annual Statement	Ordinary Dividends Paid in March 2008	Surplus After Ordinary Dividends	Proposed Extraordinary Dividends	Surplus Post Extraordinary Dividends
PSPIC	$ 57,724,204	$ 7,313,535	$ 50,410,669	$ 15,500,000	$34,910,669
GVIC	53,566,168	5,741,369	47,824,799	28,250,000	19,574,799
GVSIC	24,199,915	2,756,967	21,442,948	1,000,000	20,442,948
Total	$135,490,287	$15,811,871	$119,678,416	$44,750,000	$74,928,416

COMPANY HISTORY

The Company was a wholly-owned subsidiary of the United States Fidelity and Guaranty Company (USF&G), a Maryland domiciled property and casualty insurer. As of December 31, 2003, USF&G, was a wholly-owned subsidiary of The St. Paul Companies, Inc., a publicly traded insurance holding company incorporated in Minnesota. In April of 2004, The St. Paul Companies, Inc. and Travelers Property Casualty Corporation, a Connecticut-based insurance holding company, were combined in a merger transaction. The combined company, renamed The St. Paul Travelers Companies, Inc. (STA), is headquartered in St. Paul, Minnesota. There was no change in the ownership or control of the Company as a result of the transaction.

Effective November 1, 2005, GeoVera Holdings, Inc. (GVH), formerly known as HFF&L Holdings, Inc., acquired 100% of the outstanding shares of the Company, and its affiliates, Pacific Select Property Insurance Company (PSPIC) and GeoVera Insurance Company (GVIC). These acquisitions were part of larger a transaction totaling $143,899,431, whereby GeoVera Insurance Holdings, Ltd. (Bermuda), GVH's parent company, purchased other assets from USF&G and The St. Paul Travelers Companies, Inc. The price paid for the Company was its surplus based on Generally Accepted Accounting Principles (GAAP). The following schedule details the entire acquisition including all entities purchased and goodwill paid:

	GAAP Surplus at 11/01/2005
GeoVera Holdings, Inc.	$ 746,810
Pacific Select Property Insurance Company	39,801,882
GeoVera Insurance Company	45,118,343
GeoVera Specialty Insurance Company	28,310,678
GeoVera Specialty Services, Inc.	156,718
Total estimated fair value of the net tangible assets acquired	114,134,431
Estimated fair value of intangible assets (including Goodwill)	29,765,000
Total acquisition price	$143,899,431

The Maryland Insurance Administration approved the acquisition, as the Company was a Maryland domiciliary at the time the acquisition was consummated.

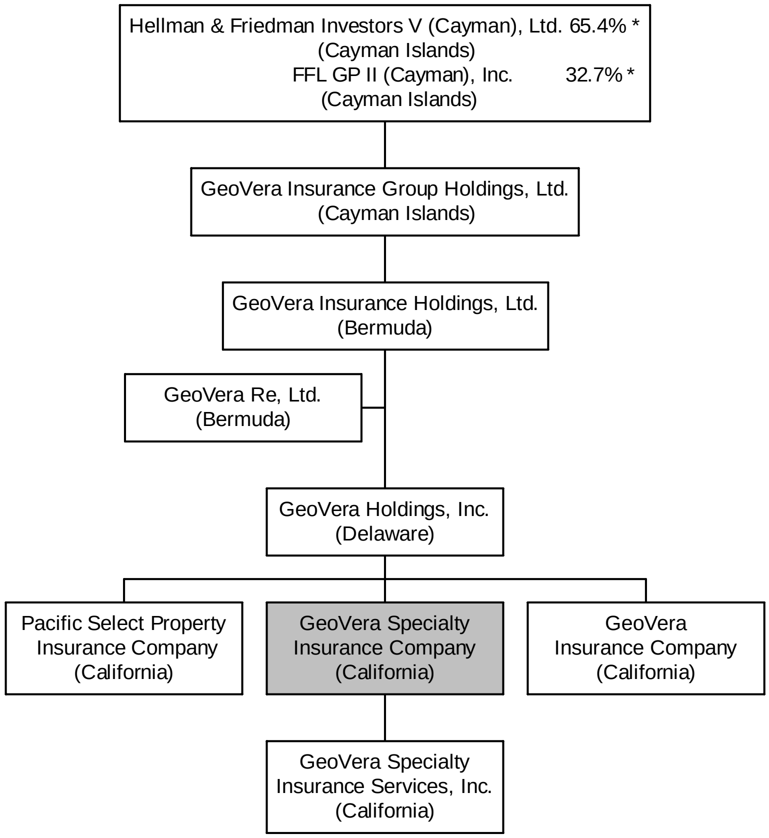
On November 10, 2006, the Company's Board of Directors approved a name change of the Company from USF&G Specialty Insurance Company to GeoVera Specialty Insurance Company, which was subsequently approved by California Department of Insurance on December 6, 2006.

During 2006, while the Company was domiciled in Maryland, the Company paid dividends to its parent company, GeoVera Holdings, Inc., of $2,053,741. During 2005 and 2003, USF&G, the Company's previous parent, contributed assets valued at $1,454,369 and $1,558,746, respectively, to the Company's surplus.

MANAGEMENT AND CONTROL

The Company's immediate parent company, GeoVera Holdings, Inc., owns 100% of the Company. The Company is part of a holding company structure in which private equity investors, Hellman & Friedman Investors V (Cayman), Ltd. (H&F) and FFL GP II (Cayman), Inc. (FFL) are the ultimate controlling persons. Although the Company disclosed its ultimate controlling parents, H&F and FFL, in its annual Form B filings, it was noted that the Company did not disclose its ultimate controlling parents in Schedule Y of its 2005 and 2006 Annual Statements. Statements of Statutory Accounting Principles No. 25, paragraph 2c requires the disclosure of the principal owners of the reporting entity. It is recommended that the Company disclose the ultimate controlling parents in Schedule Y of its Annual Statement.

The following is an abridged organizational chart depicting the Company within the holding company system:



* Remaining 1.9% owned by members of GeoVera Insurance Holdings, Ltd. senior management.

Management and control of the Company is vested in a four-member board of directors. As of December 31, 2006, the directors and principal officers were as follows:

Directors

Name and Residence	Principal Business Affiliation
Kevin M. Nish Fairfield, California	President, Chairman of the Board Pacific Select Property Insurance Company, GeoVera Insurance Company and GeoVera Specialty Insurance Company
Karen M. Padovese San Rafael, California	Chief Operating Officer Pacific Select Property Insurance Company, GeoVera Insurance Company and GeoVera Specialty Insurance Company
Brian T. Sheekey Napa, California	Chief Financial Officer Pacific Select Property Insurance Company, GeoVera Insurance Company and GeoVera Specialty Insurance Company
Michael J. Zukerman* Piedmont, California	General Counsel & Secretary Pacific Select Property Insurance Company, GeoVera Insurance Company and GeoVera Specialty Insurance Company

Principal Officers

Name	Title
Kevin M. Nish	President
Karen M. Padovese	Chief Operating Officer
Brian T. Sheekey	Chief Financial Officer
Michael J. Zukerman*	General Counsel and Secretary

*Replaced Rosemary Quinn during 2006

Management Agreements

Services Agreement: The Company has a services agreement with its parent, GeoVera Holdings, Inc. (GVH), which was approved by the Maryland Insurance Administration to be effective November 1, 2005. Under the terms of this agreement, GVH provides the following services to the Company: financial reporting, tax compliance, treasury services, budget and cost accounting, human resources, payroll, electronic fund transfer, investments, legal, office services, actuarial services, marketing and corporate affairs services, computer services, policy administration including claims administration, graphic arts and other additional services as needed. The Company reimburses GVH for the services rendered based on cost with no profit factor. For the full year of 2006, the Company paid $13,338,124 to GVH for services received under the agreement. The California Department of Insurance (CDI) approved this same agreement for use by the Company's affiliate, Pacific Select Property Insurance Company, to be effective November 1, 2005. Effective August 10, 2006, the agreement was amended to reflect changes in invoice and payment terms. The CDI approved the amendment for use on July 28, 2006.

Tax Sharing Agreement: The Company's federal income tax return is filed on a consolidated basis with its parent company, GVH, pursuant to the Tax Sharing Agreement effective November 1, 2005. Annual tax liability of the participants to the agreement is based on the participants' separate taxable income with credits for operating losses or other items used in the consolidated return. This tax sharing agreement was the same agreement that the CDI approved for use by the Company's California affiliate, Pacific Select Property Insurance Company, on October 28, 2005.

Brokerage Services Agreement: The Company has a service agreement with GeoVera Specialty Insurance Services, Inc. (GVSIS) formerly known as F&G Specialty Insurance Services, Inc., to provide administrative brokerage services effective November 1, 2005. Pursuant to the terms of the agreement, GVSIS provides certain administrative, claim and specialty insurance services as a licensed surplus line broker to the Company. The Maryland Administrative Department approved the agreement on October 27, 2005.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2006, the Company was licensed to transact the business of insurance in the states of California, Maryland, Oregon and South Dakota. The Company was an approved surplus lines carrier in the following jurisdictions:

Alabama	Hawaii	Maine	North Carolina	Tennessee	Wyoming
Alaska	Idaho	Michigan	North Dakota	Texas	Puerto Rico
Arizona	Illinois	Minnesota	Ohio	Utah	Virgin Islands
Arkansas	Indiana	Mississippi	Oklahoma	Vermont	
Colorado	Iowa	Missouri	Oregon	Virginia	
Delaware	Kansas	Montana	Pennsylvania	Washington	
Florida	Kentucky	Nebraska	Rhode Island	West Virginia	
District of Columbia	Louisiana	Nevada	South Carolina	Wisconsin	

During 2006, the Company wrote direct business in the majority of these jurisdictions. The Company writes surplus lines property and casualty insurance, consisting of catastrophe-exposed residential property risks where the availability of standard insurance coverage is limited. The Company's primary line of business was homeowners multiple peril, accounting for 99.8% of premiums written in 2006. The majority of the Company's direct business was written in the states of Florida (69.1%), Texas (13.5%) and South Carolina (10.6%). Total direct writings of $148,518,884 in these three jurisdictions accounted for 93.2 percent of the $159,276,206 of total direct business written during 2006.

Under terms of the inter-company reinsurance pooling agreement, most of the underwriting transactions of the Company are pooled, reapportioned and then distributed to the members of the pool, as discussed under the caption "Reinsurance."

The Company's products are offered through 32 contracted producers and surplus lines' wholesalers. The main wholesaler for the Company, Hull & Company, is located in Ft. Lauderdale, Florida. In 2006, 90.8% of the Company's business was produced by Hull & Company.

The Company operations (underwriting, marketing, accounting, customer service, legal, and claim management) are based at its Fairfield, California home office. The Company's claims are processed in Fairfield, California and Tallahassee, Florida. It also has resident adjusters in Texas and has contracted with six catastrophe (CAT) adjusting firms to provide a total of 385 CAT adjusters when called upon. The CAT firms providing the largest number of adjusters are Worley Adjusting Company, ICA Adjusters and AllCat Adjusters.

Except for its officers, the Company has no employees. The day-to-day operation of the Company is managed by GeoVera Holdings, Inc. in accordance with a management services agreement. Certain administrative, claim and specialty insurance services are also provided by its subsidiary, GeoVera Specialty Insurance Services, Inc., to the Company under a brokerage services agreement.

REINSURANCE

Inter-Company Reinsurance Pooling Agreement

The Company is a participant in an inter-company reinsurance pooling agreement (agreement) with two of its affiliates, Pacific Select Property Insurance Company (PSPIC) and GeoVera Insurance Company (GVIC). PSPIC is the lead insurer (Pool Leader). Under the terms of this agreement, the Company and GVIC cede, and PSPIC assumes, 100% of the Company and GVSIC's net retained liabilities after cessions to external reinsurers and its Bermuda affiliate, GeoVera Re, Ltd. (GVRe). The cessions from the participants are combined with PSPIC's business, resulting in the allocation of the pooled balance to each company in the pool as follows:

Pool Members	State of Domicile	Participation %
Pacific Select Property Insurance Company	California	46.5%
GeoVera Insurance Company*	Maryland	36.5%
GeoVera Specialty Insurance Company (GVSIC)*	Maryland	17.0%
Total		100.0%

* Company redomesticated to California effective January 1, 2007

In accordance with the terms of the agreement: (1) Each of the Pool Members other than the Pool Leader, agrees to cede to the Pool Leader and the Pool Leader accepts each such pool member's liabilities after deduction of recoveries from third party reinsurance and (2) The Pool Leader agrees to cede to the Pool Members and the Pool Members accept a quota share of the adjusted net liabilities and obligations that include assessments, underwriting expenses, taxes and policy dividends after the deductions of recoveries under third party reinsurance. Accounts are required to be settled within 45 days after the close of each calendar quarter. Effective January 1, 2007, the agreement was amended to set the percentage rates for PSPIC, GVIC and the Company at 46.5%, 36.5% and 17.0%, respectively. This agreement was the same agreement that the California Department of Insurance (CDI) approved for use for the Company's California affiliate, PSPIC, on October 18, 2005. The January 1, 2007 amendment was approved by the CDI on November 2, 2007.

<u>Affiliated Quota Share Agreement:</u> The Company has a quota share agreement with its Bermuda affiliate, GeoVera Re, Ltd. (GVRe). Under the terms of this agreement, the Company cedes and GVRe accepts 50% of the Company's net retained liabilities. Effective March 1, 2007, the agreement was amended to a 60% quota share with a 43% ceding commission. This agreement and subsequent amendment were approved by the CDI on October 18, 2005 and June 6, 2007, respectively. The Company is currently in the process of applying to the CDI for approval to change the ceding commission rate under the agreement to 45% (to be effective March 1, 2008).

<u>Assumed</u>

Except for the business assumed under the inter-company reinsurance pooling agreement, the Company assumes no other business.

<u>Ceded</u>

Following is a schedule of the third party ceded reinsurance agreements in-force as of December 31, 2006:

Type of Contract and Lines of Business	Reinsurer(s)	Company's Retention	Reinsurers' Limits
Excess of Loss Personal Lines or Monoline Residential Earthquake – Layer 1 through 3			
First Layer	Hannover Ruckversicherungs (2.5%) Platinum Underwriters (8%) Lloyds Syndicates (22.96%) Unauthorized (60.29%)/15 reinsurers	1st layer - $50 million Ultimate Net Loss (UNL) per loss occurrence plus 6.25% of $50 million excess $50 million	1st layer -93.75% of $50 million UNL per loss occurrence excess $50 million
Second Layer	Hannover Ruckversicherungs (2.5%) Folksamerica Reinsurance Company (2%) Platinum Underwriters (4%) Lloyds Syndicates (25.08) Unauthorized (61.50%)/18 reinsurers	2nd layer - $100 million UNL per loss occurrence plus 4.92 % of $150 million excess $100 million	2nd layer -95.08% $150 million UNL per loss occurrence excess $100 million
Third Layer	Hannover Ruckversicherungs (2.5%) Federal Insurance Company (5%) Platinum Underwriters (2.5%) Swiss Reinsurance America (6%) Other Domestic (2%) Lloyds Syndicates (27.53%) Unauthorized (48.975%)/17 reinsurers	3rd layer - $250 million UNL per loss occurrence plus 5.5% of $200 million excess $250 million	3rd layer -94.50% of $200 million UNL per loss occurrence excess $250 million
Fourth Layer – Residential Earthquake – California and Washington Only	Hannover Ruckversicherungs (1.0%) Swiss Reinsurance America (7.5%) Other Domestic (2.15%) Lloyds Syndicates (47.03%) Unauthorized (39.24%)/14 reinsurers	4th layer - $450 million UNL per loss occurrence plus 3.08% of $375 million excess of $450 million	4th layer – 96.92% of $375 million UNL per loss occurrence excess $450 million

Type of Contract and Lines of Business	Reinsurer(s)	Company's Retention	Reinsurers' Limits
Florida Catastrophe Excess of Loss	Renaissance Reinsurance Ltd.* (60%)* DaVinci Reinsurance Ltd.* (40%)* *Unauthorized	$450 million UNL per loss occurrence	100% of $25 million UNL excess $450 million
Quota Share - Non-Admitted Personal Lines	Hannover Ruckversicherungs (4.5%)	95.5% of $350 million, any one loss occurrence	4.5% of $350 million, any one loss occurrence
Quota Share - Non-Admitted Personal Lines	Lloyd's Syndicate #33 (2%)	98% of $250 million, one loss occurrence and up to 98% of $550 million in the aggregate for all losses during the agreement year	2% of $250 million, one loss occurrence, not to exceed 2% of $550 million in the aggregate for all losses during the agreement year
Quota Share Indemnity	United States Fidelity and Guaranty (USF&G)	None	USF&G indemnifies the Company for all losses incurred prior to November 1, 2005 as well as any subsequent loss development.

ACCOUNTS AND RECORDS

Subsequent to the filing of its 2006 Annual Statement, the Company recorded certain adjustments which were primarily related to the Company's affiliates', GeoVera Insurance Company and Pacific Select Property Insurance Company, participation in the California Fair Plan (Plan). The Company had inadvertently excluded the participation in the Plan from its Annual Statement - Schedule P. As a result, the Company's external auditors included an adjusted Schedule P in its 2006 Audited Report. The amounts were not material therefore no adjustments will be made for the purposes of this examination report.

It is recommended that the Company institute controls to ensure that its Schedule P is accurate and complete.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2006

Underwriting and Investment Exhibit for the Year Ended December 31, 2006

Reconciliation of Surplus as Regards Policyholders from December 31, 2002
through December 31, 2006

Statement of Financial Condition
as of December 31, 2006

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 7,074,436	$	$ 7,074,436	
Cash and short-term investments	28,332,965		28,332,965	
Investment income due and accrued	140,753		140,753	
Uncollected premiums and agents' balances in course of collection	16,453,374		16,453,374	(1)
Reinsurance: Amount recoverable from reinsurers	13,091,141		13,091,141	
Net deferred tax asset	2,763,498	315,371	2,448,127	
Electronic data processing equipment and software	864,421	237,756	626,665	
Furniture and equipment and software	285,949	285,949		
Receivables from parent, subsidiaries, and affiliates	9,740,439		9,740,439	
Aggregate write-ins for other than invested assets	185,964	185,964		
Total assets	$78,932,940	$ 1,025,040	$77,907,900	

Liabilities, Surplus and Other Funds

Losses		$ 2,650,750	(2)
Reinsurance payable on paid losses and loss adjustment expenses		1,383,090	
Loss adjustment expenses		552,553	(2)
Commissions payable		483,831	
Other expenses		366,379	
Taxes, licenses and fees		48,860	
Current federal and foreign income taxes		(1,429)	
Unearned premiums		11,251,275	
Advance premium		4,009,289	
Ceded reinsurance premiums payable		31,628,355	
Remittances and items not allocated		1,068	
Aggregate write-ins for liabilities		4,576,809	
Total liabilities		56,950,830	
Common capital stock	$ 5,000,000		
Gross paid-in and contributed surplus	13,013,114		
Unassigned funds (surplus)	2,943,956		
Surplus as regards policyholders		20,957,070	
Total liabilities, surplus and other funds		$77,907,900	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2006

Statement of Income

Underwriting Income		
Premiums earned		$12,880,470
Deductions:		
Losses incurred	$ 5,021,014	
Loss expenses incurred	982,213	
Other underwriting expenses incurred	4,713,610	
Total underwriting deductions		10,716,837
Net underwriting gain		2,163,633
Investment Income		
Net investment income earned	$ 1,701,610	
Net realized capital losses	(179,292)	
Net investment gain		1,522,318
Other Income		
Finance and service charges not included in premiums	$ 468,322	
Total other income		468,322
Net income before federal and foreign income taxes		4,154,273
Federal and foreign income taxes incurred		2,184,895
Net income		$ 1,969,378

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2005		$20,537,420
Net income	$ 1,969,378	
Change in net deferred income tax	501,672	
Change in nonadmitted assets	362,964	
Dividends to stockholders	(2,053,741)	
Aggregate write-in for gains and losses in surplus	(360,623)	
Change in surplus as regards policyholders for the year		419,650
Surplus as regards policyholders, December 31, 2006		$20,957,070

Reconciliation of Surplus as Regards Policyholders
from December 31, 2002 through December 31, 2006

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2002, per Examination			$16,339,595
Net income	$5,100,360	$	
Change in net unrealized capital gain (losses)		1,558,746	
Change in net deferred income tax	1,502,150		
Change in nonadmitted assets		1,025,040	
Surplus paid-in	3,013,115		
Dividends to stockholders		2,053,741	
Aggregate write-ins for gains and losses in surplus		360,623	
Total gains and losses	$9,615,625	$4,998,150	
Increase in surplus as regards policyholders			4,617,475
Surplus as regards policyholders, December 31, 2006, per Examination			$20,957,070

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Uncollected Premiums and Agents' Balances in the Course of Collection

Included in this account are installment premiums booked but deferred and not yet due. The installment premiums booked but deferred and not yet due are incorrectly classified in premiums and agents balances in the course of collection. It is recommended that installment premiums booked but deferred and not yet due be reported in the Annual Statement under "Deferred premiums, agents' balances and installments booked but deferred and not yet due".

(2) Losses and Loss Adjustment Expenses

A Casualty Actuary from the California Department of Insurance reviewed the Company's loss and loss adjustment expense reserves as of December 31, 2006. Based on that review, the Company's December 31, 2006 reserves for losses and loss adjustment expenses were determined to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – (Page 4): It is recommended that the Company disclose the ultimate controlling parents in Schedule Y of the Annual Statement in compliance with Statements of Statutory Accounting Principles No. 25, paragraph 2c.

Accounts and Records – (Page 13): It is recommended that the Company institute controls to ensure that its Annual Statement Schedule P is accurate and complete.

Comments on Financial Statement Items - Uncollected Premiums and Agents' Balances in the Course of Collection – (Page 17): It is recommended that installment premiums booked but deferred and not yet due be reported in the Annual Statement under "Deferred premiums, agents' balances and installments booked but deferred and not yet due."

Previous Report of Examination

The comments and recommendations made by the Maryland Insurance Administration in its prior (as of December 31, 2002) examination report of the Company were applicable to situations that existed before the change in the Company's ownership on November 1, 2005. As such, no follow-up was made with respect to the comments and recommendations made.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees of GeoVera Holdings, Inc., during the course of this examination.

Respectfully submitted,

____________/S/________________
Sandra Bailey, CFE
Examiner-In-Charge
Department of Insurance
State of California